EIC

```
how files;ds
File  15:ABI/Inform(R) 1971-2006/Feb 01
         (c) 2006 ProQuest Info&Learning
File   9:Business & Industry(R) Jul/1994-2006/Jan 31
         (c) 2006  The Gale Group
File 275:Gale Group Computer DB(TM) 1983-2006/Feb 01
         (c) 2006 The Gale Group
File 621:Gale Group New Prod.Annou.(R) 1985-2006/Feb 01
         (c) 2006 The Gale Group
File 636:Gale Group Newsletter DB(TM) 1987-2006/Feb 01
         (c) 2006 The Gale Group
File  16:Gale Group PROMT(R) 1990-2006/Feb 01
         (c) 2006 The Gale Group
File 160:Gale Group PROMT(R) 1972-1989
         (c) 1999 The Gale Group
File 148:Gale Group Trade & Industry DB 1976-2006/Feb 01
         (c)2006 The Gale Group

Set     Items   Description
S1     355295   (BUSINESS? ? OR ENTERPRISE OR ENTERPRISES OR COMPANIES OR -
             COMPANY)(4N)ASSETS
S2   16174684   (BRAND OR BRANDS OR CUSTOMER? ? OR EMPLOYEE? OR INTELLECTU-
             AL()PROPERTY OR IP OR EQUIPMENT)
S3    4270540   RISK? ?
S4     128321   PROBABILITY
S5     194868   (EVALUAT? OR ASSES? OR MEASUR? OR QUANTIF?)(5N)S3
S6      30850   (EVALUAT? OR ASSES? OR MEASUR? OR QUANTIF?)(5N)ASSETS
S7        158   S5(7N)S1
S8    2180208   STATISTIC? OR FORMULA
S9          0   S7(5N)S8
S10        43   S7 AND S8
S11        39   RD  (unique items)
S12        12   S11 AND PD=>20001017
S13        27   S11 NOT S12
S14      5105   S6(7N)(BUSINEES? ? OR ENTERPRISE OR COMPANY OR COMPANIES)
S15       679   S14(S)S2
S16     12532   ENTERPRISE(5N)ASSETS
S17         0   S16(7N)STATISTIC?(7N)PROBAB?
S18        22   S16(10N)S5
S19         6   S18 NOT PD=>20001017
?
```

Bayesian approaches to finance

Erik Norland, Donald Stabile. **Global Investor**. London: Sep 2000., Iss. 135; pg. 62

Subjects:	Bayesian analysis, Risk management, Portfolio management, Theory
Classification Codes	3300
Author(s):	Erik Norland, Donald Stabile
Document types:	Feature
Publication title:	Global Investor. London: Sep 2000. , Iss. 135; pg. 62
Source type:	Periodical
ISSN/ISBN:	09513604
ProQuest document ID:	60619500
Text Word Count	2502
Document URL:	http://proquest.umi.com/pqdweb?did=60619500&sid=5&Fmt=3&clientId=19649&RQT=309&VName=PQD

Abstract (Document Summary)

During the past 50 years there has been a quantitative revolution in finance that began in 1952 with the development of what is now called modern portfolio theory (MPT) by Professor Harry Markowitz. In MPT the old problem of portfolio selection it put in purely statistical terms. The return of an asset is expressed as a mean, the risk of an asset becomes variance and the relationships between the returns of different assets become correlations. Bayesian statistics is the science of combining information. In the case of financial markets Bayes theorem will allow one to combine previous views about parameters with new information, enabling one to create adaptive models. Using Bayesian statistics one can assume that relationships between fundamental factors and market returns, volatility and correlation are not constant, but evolve.

Full Text (2502 words)

[Headnote]

Estimating future returns and risks in financial markets is well-suited, argue Erik Norland and Donald Stabile, to the analysis pioneered by Thomas Bayes in the 1700s.

During the past 50 years there has been a quantitative revolution in finance that began in 1952 with the development of what is now called modern portfolio theory (MPT) by Professor Harry Markowitz. In MPT the old problem of portfolio selection is put in purely statistical terms. The return of an asset is expressed as a mean, the risk of an asset becomes variance and the relationships between the returns of different assets become correlations. With this theory,and a succession of related theories that followed, came widespread application of statistics to finance.

The problem is that the objectivist brand of statistics, called classical or frequentist statistics, which dominated the statistical profession for many years and continues to exercise a strong influence even today, is not well suited for application to finance. Frequentist statistics assumes that the parameters that govern the state of nature are both fixed and unknown. Thus, it implies that important financial relationships, such as correlation between asset returns, volatility of asset returns, and the interaction of fundamental factors and financial asset returns, are fixed and do not evolve over time. Yet most practitioners recognize that these parameters are not constant. In fact, some would argue that if the market is even close to being efficient then these types of parameters ought to be changing randomly through time.

As an alternative the financial industry has begun to turn towards a subjective form of statistics developed by Thomas Bayes. Bayes, a minister and amateur mathematician who lived during the 1700s, may seem like an unusual source of inspiration for portfolio managers at the beginning ofthe new millennium. Yet his statistical theories offer portfolio managers a much stronger set of tools for constructing portfolios than the frequentist